

**TERRIL
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

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TERRIL COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2009 Election)

Larry Flaharty	President	2010 *
Galen Chicoine	Vice President	2010 *
Eugene Buhr		2009
Chelle Bisenius		2009
Tim Roth		2009

(After September 2009 Election)

Larry Flaharty	President	2010 *
Galen Chicoine	Vice President	2010 *
Eugene Buhr		2010 *
Chelle Bisenius		2010 *
Tim Roth		2010 *

School Officials

Randy Collins	Superintendent
Karen Oleson	District Secretary/ Treasurer

- * All terms will end June 30, 2010 due to the voter-approved reorganization with the Graettinger Community School District

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Terril Community School District, Terril, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Terril Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

The voters of the District approved a reorganization with the Graettinger Community School District effective July 1, 2010.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2011 on our consideration of Terril Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Terril Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the three years ended June 30, 2005 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce D. Frink

BRUCE D. FRINK
Certified Public Accountant

March 21, 2011

TERRIL COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Terril Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The 2009-10 school year marked the third year of a three year renewed whole grade sharing agreement with Graettinger Community School District. The grade alignment is established with all of Terril's high school students (grades 9 to 12) and lower elementary (kindergarten to 2nd grade) going to Graettinger. In turn, all of Graettinger's students in grades 3 to 8 were bussed to Terril.
- On December 2, 2008, Terril and Graettinger voters approved a reorganization to take effect July 1, 2010. In Terril, 63.27 percent of the voters approved the merger; 96.89 percent of Graettinger voters approved the plan. In January, 2009 a new board was sworn in the Duane Hoffman, Kevin Jensen, Kyle Norris, (named board president) and Roger Schmitt from Graettinger's board. Chelle Bisenius, Eugene Buhr and Galen Chicone, (named board vice-president), were from Terril's board. The seven member board will transition to a five member board eventually.
- Randy Collins served as superintendent for Graettinger and Terril districts as well as Armstrong-Ringsted Community School District. He also serviced as Terril's 3-9 principal.
- During 2009 the economy took another down turn. This led the governor to issue an executive order for a 10% across-the-board cut in December, 2009. School districts retained the spending authority for the cut. Congress passed the federal American Recovery and Reinvestment Act (ARRA) which sent millions of dollars to all levels of government. The state used a portion of that money to backfill the state shortfall.
- The District's overall financial position in the General Fund improved compared to the prior year. The unreserved/undesignated general fund balance increased from \$438,955 to \$505,222. At 23 percent, the district's solvency ratio continues to be above the target range of 5% - 10% that most districts try to maintain.
- The certified enrollment count taken on October 1, 2009 was 148.0. This count represents a loss of 12.1 students compared to the October, 2008 count.
- In the 2009-10 school year we had fifty two students open enroll out and thirteen students open enroll in. This compares to fifty opened enrolled out and four students opened enrolled in for the prior year.
- Revenue receipts were up about five percent over last year. Due to the ARRA (stimulus) funds, federal revenue almost double. Property taxes and income surtaxes increased fourteen percent. State source revenue dropped by over thirty percent.
- Capital project revenue totaled \$161,368 from statewide sales, services and use tax. This represents a decrease of over \$32,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Terril Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Terril Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Terril Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year as well as presenting Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds as well as a multiyear comparison of revenues and expenditures.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Terril Community School District Annual Financial Report

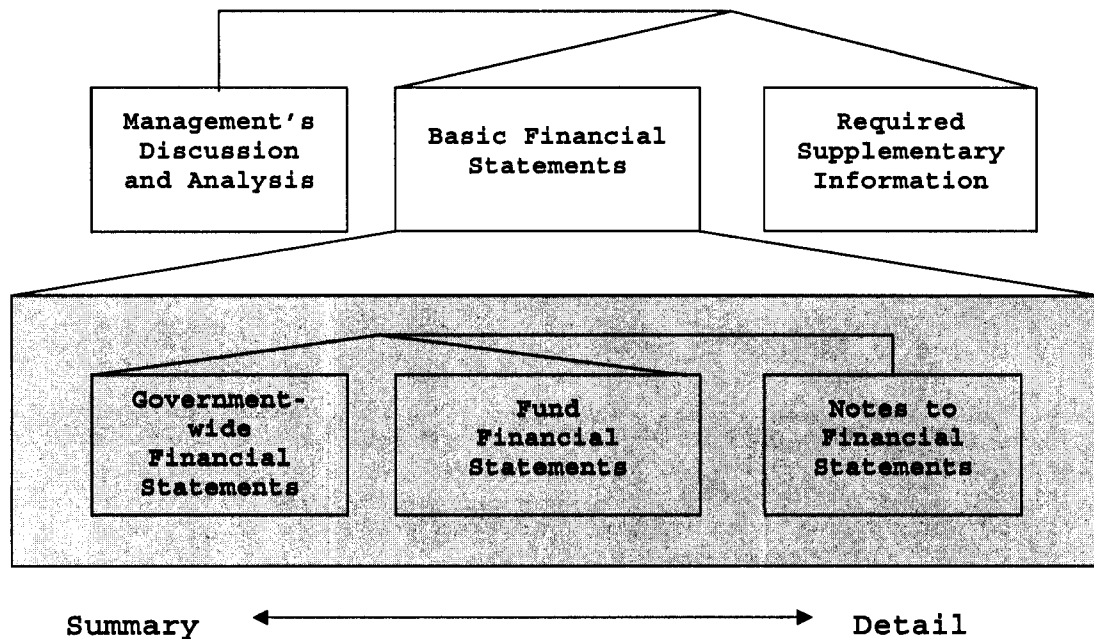


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as flex spending
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to present all funds as "major" for clarity of reporting.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses, changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others.

- *Agency Fund* - The District accounts for funds held in a custodial capacity.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to the year ended June 30, 2009.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 924	1,898	6	6	930	1,904	-51.16%
Capital assets	<u>1,530</u>	<u>1,524</u>	<u>-</u>	<u>-</u>	<u>1,530</u>	<u>1,524</u>	<u>0.39%</u>
Total assets	<u>2,454</u>	<u>3,422</u>	<u>6</u>	<u>6</u>	<u>2,460</u>	<u>3,428</u>	<u>-28.24%</u>
Current liabilities	116	1,085	-	1	116	1,086	-89.32%
Non-current liabilities	<u>46</u>	<u>63</u>	<u>-</u>	<u>-</u>	<u>46</u>	<u>63</u>	<u>-26.98%</u>
Total liabilities	<u>162</u>	<u>1,148</u>	<u>-</u>	<u>1</u>	<u>162</u>	<u>1,149</u>	<u>-85.90%</u>
Net Assets							
Invested in capital assets, net of related debt	1,530	1,524	-	-	1,530	1,524	0.39%
Restricted	181	311	-	-	181	311	-41.80%
Unrestricted	<u>581</u>	<u>439</u>	<u>6</u>	<u>5</u>	<u>587</u>	<u>444</u>	<u>32.21%</u>
Total net assets	<u>\$ 2,292</u>	<u>2,274</u>	<u>6</u>	<u>5</u>	<u>2,298</u>	<u>2,279</u>	<u>0.83%</u>

The District's combined net assets increased by almost 1%, or approximately \$21,000 over the prior year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$143,000 or 32%.

Total assets and liabilities dropped significantly but by equal amounts due to a change in accounting for deferred property tax revenues due to the upcoming reorganization.

Figure A-4 shows the changes in net assets for the years ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total School District		Total Change	
2010	2009	2010	2009	2010	2009	2009-2010	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 502	380	39	38	541	418	29.43%
Operating grants, contributions and restricted interest	371	295	40	38	411	333	23.42%
General revenues:							
Property tax	1,005	911	-	-	1,005	911	10.32%
Income surtax	95	70	-	-	95	70	35.71%
Statewide sales, services and use tax	161	199	-	-	161	199	-19.10%
Unrestricted state grants	298	512	-	-	298	512	-41.80%
Unrestricted investment earnings	6	8	-	-	6	8	-25.00%
Other	13	14	-	-	13	14	-7.14%
Total revenues	2,451	2,389	79	76	2,530	2,465	2.64%
Program expenses:							
Governmental activities:							
Instruction	1,576	1,455	-	-	1,576	1,455	8.32%
Support Services	583	551	-	-	583	551	5.81%
Non-instructional programs	3	1	77	77	80	78	2.56%
Other expenses	272	215	-	-	272	215	26.51%
Total expenses	2,434	2,222	77	77	2,511	2,299	9.22%
Change in net assets	\$ 17	167	2	(1)	19	166	-88.55%

Property tax and unrestricted state grants account for 52% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,450,538 and expenses were \$2,433,539, for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenditures, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5 Total and Net Cost of Governmental Activities (Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 1,576	1,455	8.32%	900	854	5.39%
Support services	583	551	5.81%	458	544	-15.81%
Non-instructional programs	3	1	200.00%	3	1	200.00%
Other expenses	272	215	26.51%	200	148	35.14%
Totals	\$ 2,434	2,222	9.54%	1,561	1,547	0.90%

For year ended June 30, 2010:

- The cost financed by users of the District's programs was \$507,803.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$279,882.
- The net cost of governmental activities was financed with \$1,004,624 in property and other taxes and \$297,534 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$79,401 and expenses totaled \$77,704. The District's business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, Terril Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$741,362, a two percent decrease over last year's ending fund balances of \$757,985. This was primarily due to a number of equipment purchases and facility upgrades.

Governmental Fund Highlights

- The District's General Fund financial status increased this year. The District carefully monitors discretionary spending to avoid decreases in fund balances. This becomes more difficult every year due to state's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) is no longer levied as a result of the District using sales tax funds for these purposes. Monies were used for equipment purchases in FY10.

- The Capital Projects fund decreased in the fiscal year ending June 30, 2010. This money is being used for many of the same purposes as the District's PPEL levy.

Proprietary Fund Highlights

The School Nutrition Fund increased by \$1,697 this year. Once again, no capital contribution from the General Fund was required as has been done in past years.

BUDGETARY HIGHLIGHTS

The District's receipts were \$14,853 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state sourced revenues than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District did exceed the amount budgeted in the non-instructional programs function as PPEL funds were used to purchase over \$16,000 in food service equipment. The District did not exceed the General Fund unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$1,529,806, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$179,439.

The original cost of the District's capital assets was \$2,526,877. Governmental funds account for \$2,476,764, with the remainder of \$50,113 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 202	201	-	-	202	201	0.50%
Buildings and improvements	906	886	-	-	906	886	2.26%
Furniture and equipment	422	437	-	-	422	437	-3.43%
Totals	<u>\$ 1,530</u>	<u>1,524</u>	<u>-</u>	<u>-</u>	<u>1,530</u>	<u>1,524</u>	<u>0.39%</u>

Long-Term Debt

The District has no long-term debt with the exception of early retirement packages that are being paid off in the next three years.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence out the part of the administration and board of education.
- Reorganization with Graettinger has been approved beginning with FY2011.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Chapman, District Secretary/Treasurer, Graettinger-Terril Community School District, 400 West Lost Island Street, Graettinger, IA 51342.

Basic Financial Statements

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities School Nutrition	Total
Assets			
Cash and pooled investments	\$ 737,525	3,045	740,570
Receivables:			
Property tax:			
Current year	10,702	-	10,702
Income surtax - succeeding year	66,682	-	66,682
Due from other governments	103,119	-	103,119
Other receivables	5,863	-	5,863
Inventories	-	3,315	3,315
Capital assets, net of accumulated depreciation	1,529,665	141	1,529,806
Total assets	<u>2,453,556</u>	<u>6,501</u>	<u>2,460,057</u>
Liabilities			
Accounts payable	102,993	30	103,023
Accrued payroll and benefits	572	-	572
Deferred revenue:			
Federal programs	12,282	-	12,282
Long-term liabilities:			
Portion due within one year:			
Early retirement	12,699	-	12,699
Portion due after one year:			
Early retirement	33,492	-	33,492
Total liabilities	<u>162,038</u>	<u>30</u>	<u>103,595</u>
Net assets			
Invested in capital assets, net of related debt	1,529,665	141	1,529,806
Restricted for:			
Management levy	9,440	-	9,440
Physical plant and equipment levy	52,915	-	52,915
Capital projects	104,204	-	104,204
Categorical funding	16,141	-	16,141
Unrestricted	579,153	6,330	585,483
Total net assets	<u>\$ 2,291,518</u>	<u>6,471</u>	<u>2,297,989</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:					
Governmental activities:					
Instruction	\$ 1,575,426	381,579	293,712	(900,135)	(900,135)
Support services:					
Student services	43,167	-	-	(43,167)	(43,167)
Instructional staff services	33,887	-	-	(33,887)	(33,887)
Administration services	242,341	120,224	-	(122,117)	(122,117)
Operation and maintenance of plant services	172,208	-	5,028	(167,180)	(167,180)
Transportation services	91,682	-	-	(91,682)	(91,682)
	583,285	120,224	5,028	(458,033)	(458,033)
Non-instructional programs:					
Food service operations	3,270	-	-	(3,270)	(3,270)
Other expenditures:					
AEA flowthrough	70,957	-	70,957	-	-
Facilities acquisition and construction	21,209	-	815	(20,394)	(20,394)
Depreciation (unallocated) *	179,392	-	-	(179,392)	(179,392)
	271,558	-	71,772	(199,786)	(199,786)
Total governmental activities	2,433,539	501,803	370,512	(1,561,224)	(1,561,224)

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Total
Business type activities:				
Non-instructional programs:				
Nutrition services	77,704	39,040	40,361	1,697
Total	<u>\$ 2,511,243</u>	<u>540,843</u>	<u>410,873</u>	<u>(1,559,527)</u>
General Revenues:				
Property tax levied for:				
General purposes			\$ 935,075	-
Management levy			69,549	-
Income surtax			95,428	-
Statewide sales, services and use tax			161,368	-
Unrestricted state grants			297,534	-
Unrestricted investment earnings			5,867	-
Other			13,402	-
Total general revenues			<u>1,578,223</u>	<u>1,578,223</u>
Change in net assets			16,999	1,697
Net assets beginning of year			2,274,519	4,774
Net assets end of year			<u>\$ 2,291,518</u>	<u>2,297,989</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

Assets

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Cash and pooled investments	\$ 513,644	8,377	55,163	52,915	107,426	737,525
Receivables:						
Property tax:						
Current year	9,958	-	744	-	-	10,702
Income surtax - succeeding year	66,682	-	-	-	-	66,682
Due from other governments	72,528	-	-	-	30,591	103,119
Other receivables	5,863	-	-	-	-	5,863
Total assets	<u>\$ 668,675</u>	<u>8,377</u>	<u>55,907</u>	<u>52,915</u>	<u>138,017</u>	<u>923,891</u>

Liabilities and Fund Balance

Liabilities:						
Accounts payable	\$ 67,776	1,128	276	-	33,813	102,993
Accrued payroll and benefits	572	-	-	-	-	572
Deferred revenue:						
Succeeding year income surtax	66,682	-	-	-	-	66,682
Federal programs	12,282	-	-	-	-	12,282
Total liabilities	<u>147,312</u>	<u>1,128</u>	<u>276</u>	<u>-</u>	<u>33,813</u>	<u>182,529</u>
Fund balances:						
Reserved for categorical funding	16,141	-	-	-	-	16,141
Unreserved, reported in:						
Capital projects	-	-	-	-	104,204	104,204
Special revenue	-	7,249	55,631	52,915	-	115,795
General Fund	505,222	-	-	-	-	505,222
Total fund balances	<u>521,363</u>	<u>7,249</u>	<u>55,631</u>	<u>52,915</u>	<u>104,204</u>	<u>741,362</u>
Total liabilities and fund balances	<u>\$ 668,675</u>	<u>8,377</u>	<u>55,907</u>	<u>52,915</u>	<u>138,017</u>	<u>923,891</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2010

Total fund balances of governmental funds (Exhibit C)	\$ 741,362
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*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Income surtax receivable at June 30, 2010 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	66,682
---	--------

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,529,665
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Early retirement	<u>(46,191)</u>
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Net assets of governmental activities (Exhibit A)	<u>\$ 2,291,518</u>
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TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Revenues:						
Local sources:						
Local tax	\$ 1,018,976	-	69,549	-	161,368	1,249,893
Tuition	381,579	-	-	-	-	381,579
Other	148,497	5,291	4,461	102	815	159,166
State sources	495,999	-	33	-	-	496,032
Federal sources	151,909	-	432	-	-	152,341
Total revenues	2,196,960	5,291	74,475	102	162,183	2,439,011
Expenditures:						
Current:						
Instruction	1,558,505	5,434	17,934	4,526	100,221	1,686,620
Support services:						
Student services	43,167	-	-	-	-	43,167
Instructional staff services	33,887	-	-	-	-	33,887
Administration services	237,611	-	3,728	1,002	-	242,341
Operation and maintenance of plant services	99,586	-	21,896	34,500	16,226	172,208
Transportation services	81,951	295	8,907	-	529	91,682
	496,202	295	34,531	35,502	16,755	583,285
Non-instructional programs:						
Food service operations	-	-	1,742	16,810	1,528	20,080

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Other expenditures:						
AEA flowthrough	70,957	-	-	-	-	70,957
Facilities acquisition and construction	-	-	-	1,838	92,764	94,602
	<u>70,957</u>	<u>-</u>	<u>-</u>	<u>1,838</u>	<u>92,764</u>	<u>165,559</u>
Total expenditures	<u>2,125,664</u>	<u>5,729</u>	<u>54,207</u>	<u>58,676</u>	<u>211,268</u>	<u>2,455,544</u>
Net change in fund balance	71,296	(438)	20,268	(58,574)	(49,085)	(16,533)
Fund balances beginning of year	<u>450,067</u>	<u>7,687</u>	<u>35,363</u>	<u>111,489</u>	<u>153,289</u>	<u>757,895</u>
Fund balances end of year	<u>\$ 521,363</u>	<u>7,249</u>	<u>55,631</u>	<u>52,915</u>	<u>104,204</u>	<u>741,362</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2010

Net change in fund balances - total governmental funds (Exhibit E) \$ (16,533)

*Amounts reported for governmental activities in the Statement of Activities
are different because:*

Income surtaxes not collected for several months after the District's
fiscal year ends are not considered "available" revenues in the
governmental funds and are included as deferred revenues. They are,
however, recorded as revenues in the statement of activities 11,527

Capital outlays to purchase or build capital assets are reported in
governmental funds as expenditures. However, those costs are not
reported in the Statement of Net Activities and are allocated over their
estimated useful lives as depreciation expense in the Statement of
Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	184,572
Depreciation expense	(179,392)

Some expenses reported in the Statement of Activities do not require the use of
current financial resources and, therefore, are not reported as expenditures
in the governmental funds, as follows:

Early retirement	<u>16,825</u>
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Change in net assets of governmental activities (Exhibit B) \$ 16,999

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2010

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 39,040
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	29,570
Benefits	12,158
Services	576
Supplies	35,353
Depreciation	47
Total operating expenses	<u>77,704</u>
Operating (loss)	<u>(38,664)</u>
Non-operating revenues:	
State sources	759
Federal sources	<u>39,602</u>
	<u>40,361</u>
Changes in net assets	1,697
Net assets beginning of year	<u>4,774</u>
Net assets end of year	<u>\$ 6,471</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2010

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 39,040
Cash payments to employees for services	(41,728)
Cash payments to suppliers for goods or services	(30,085)
Net cash (used by) operating activities	<u>(32,773)</u>
Cash flows from non-capital financing activities:	
State grants received	759
Federal grants received	33,597
Net cash provided by non-capital financing activities	<u>34,356</u>
Net increase in cash and cash equivalents	1,583
Cash and cash equivalents beginning of year	<u>1,462</u>
Cash and cash equivalents end of year	<u>\$ 3,045</u>
Reconciliation of operating (loss) to net cash (used by) operating activities:	
Operating (loss)	\$ (38,664)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	47
Commodities used	6,005
Decrease in inventory	97
Decrease in prepaid expenses	454
(Decrease) in accounts payable	(712)
	<u>\$ (32,773)</u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2010, the District received federal commodities valued at \$6,005.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	<u>Agency Funds</u>		<u>Total</u>
	<u>Flex Plan</u>	<u>DB Kids</u>	
Assets			
Cash and pooled investments	\$ 43,511	375	43,886
Liabilities			
Other payables	<u>43,511</u>	<u>375</u>	<u>43,886</u>
Net Assets			
Reserved for special purposes	<u>\$ -</u>	<u>-</u>	<u>-</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	Agency Funds		Total
	Flex Plan	DB Kids	
Additions:			
Local sources:			
Miscellaneous	\$ 520	100	620
Total additions	520	100	620
Deductions:			
Support services:			
Other expenses	520	100	620
Total deductions	520	100	620
Change in net assets	-	-	-
Net assets beginning of year	-	-	-
Net assets end of year	\$ -	-	-

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

Terril Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Terril, Iowa, and agricultural area in Palo Alto, Dickinson, Emmett and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis. The District also contracts, as explained in Note 6, with the Graettinger Community School District to educate students in all grades.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Terril Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Terril Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Clay and Dickinson County Assessor Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise Fund, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Agency Fund is used to account for assets held by the District in a custodial relationship.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Due to the fact that the District is reorganizing effective July 1, 2010, only the current receivable is shown per direction from the Departments of Education and Managements.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000
Intangible assets	50,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied as well as unspent grant proceed.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2010.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amount budgeted in the non-instructional programs function. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2010.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 201,783	-	-	201,783
Capital assets being depreciated:				
Buildings and improvements	1,320,825	73,393	-	1,394,218
Furniture and equipment	836,439	111,179	66,855	880,763
Total capital assets being depreciated	2,157,264	184,572	66,855	2,274,981
Less accumulated depreciation for:				
Buildings and improvements	435,827	52,292	-	488,119
Furniture and equipment	398,735	127,100	66,855	458,980
Total accumulated depreciation	834,562	179,392	66,855	947,099
Total capital assets being depreciated, net	1,322,702	5,180	-	1,327,882
Governmental activities, capital assets, net	\$ 1,524,485	5,180	-	1,529,665
Business type activities:				
Furniture and equipment	\$ 50,113	-	-	50,113
Less accumulated depreciation	49,925	47	-	49,972
Business type activities capital assets, net	\$ 188	(47)	-	141
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 179,392
Business Type activities:				
Food service operations				\$ 47

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the District is required to contribute 6.65% of annual salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$54,085, \$45,028 and \$45,014 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$70,957 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) **Two-Way Whole Grade Sharing**

The District has entered into a contract with Graettinger Community School District to complete the academic and extra-curricular needs of students in all grades. All regular education students in grades kindergarten through two and nine through twelve attend the Graettinger Community School District. All regular education students in grades three through eight attend the Terril Community School District.

(7) **Reorganization**

The voters of the District approved reorganization with the Graettinger Community School District effective July 1, 2010.

(8) **Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 14 active and 8 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefits plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 20,214
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	20,214
Contributions made	(20,214)
Increase in net OPEB obligation	-
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	\$ -

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$20,214 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$20,214	100.0%	\$ -

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$208,299, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$208,299. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$844,000 and the ratio of the UAAL to covered payroll was 24.2%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Required Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Funds**

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts	Final to Actual Variance
	Actual	Actual	Actual	Original	Final
Revenues:					
Local sources	\$ 1,790,638	39,040	1,829,678	1,575,929	1,575,929
State sources	496,032	759	496,791	841,334	841,334
Federal sources	152,341	39,602	191,943	116,000	116,000
Total revenues	<u>2,439,011</u>	<u>79,401</u>	<u>2,518,412</u>	<u>2,533,263</u>	<u>2,533,263</u>
					253,749 (344,543) 75,943 (14,851)
Expenditures/expenses:					
Instruction	1,686,620	-	1,686,620	1,775,000	1,775,000
Support services	583,285	-	583,285	881,690	881,690
Non-instructional programs	20,080	77,704	97,784	82,950	82,950
Other expenditures	165,559	-	165,559	242,513	242,513
Total expenditures/expenses	<u>2,455,544</u>	<u>77,704</u>	<u>2,533,248</u>	<u>2,982,153</u>	<u>2,982,153</u>
					88,380 298,405 (14,834) 76,954 448,905
Excess (deficiency) of revenues over (under) expenditures/expenses	(16,533)	1,697	(14,836)	(448,890)	(448,890)
Other financing sources (uses)	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(16,533)	1,697	(14,836)	(448,890)	(448,890)
Balance beginning of year	757,895	4,774	762,669	630,633	630,633
Balance end of year	<u>\$ 741,362</u>	<u>6,471</u>	<u>747,833</u>	<u>181,743</u>	<u>181,743</u>
					434,054 132,036 566,090

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2010, expenditures exceeded the amount budgeted in the non-instructional programs functions. The District did not exceed its General Fund unspent authorized budget.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan
(In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	Jul 1, 2009	\$0	\$208	\$208	0.0%	\$844	24.6%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 52	12	-	64
Boys Basketball	-	427	-	427
Football	-	75	-	75
Girls Basketball	-	524	-	524
Volleyball	-	273	-	273
Softball	327	438	294	471
Track	250	25	50	225
Middle School Field Trips	2,925	1,143	2,793	1,275
Student Council	4,133	2,374	2,592	3,915
Total	<u>\$ 7,687</u>	<u>5,291</u>	<u>5,729</u>	<u>7,249</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Eight Years

	Modified Accrual Basis							
	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:								
Local sources:								
Local tax	\$ 1,249,893	\$ 1,176,313	1,065,492	1,218,913	1,007,910	1,095,780	1,179,848	1,184,675
Tuition	381,579	307,490	347,885	276,920	317,467	78,458	52,315	80,404
Other	159,166	112,163	127,386	210,303	130,047	100,979	90,826	102,719
State sources	496,032	705,613	714,035	684,422	811,394	737,675	682,605	671,212
Federal sources	152,341	84,827	70,028	71,089	68,922	76,147	98,026	96,339
Total	<u>\$ 2,439,011</u>	<u>\$ 2,386,406</u>	<u>2,324,826</u>	<u>2,461,647</u>	<u>2,335,740</u>	<u>2,089,039</u>	<u>2,103,620</u>	<u>2,135,349</u>
Expenditures:								
Instruction	\$ 1,686,620	\$ 1,481,888	1,494,909	1,549,065	1,533,767	1,388,606	1,374,477	1,421,266
Support services:								
Student	43,167	14,419	4,229	1,565	994	30,246	15,119	14,039
Instructional staff	33,887	43,808	18,419	22,410	44,685	10,783	29,658	25,134
Administration	242,341	255,638	268,680	258,928	250,018	214,077	182,554	171,362
Operation and maintenance of plant	172,208	155,033	154,561	126,643	145,530	114,742	118,167	93,032
Transportation	91,682	104,719	180,577	214,374	120,721	183,805	128,703	97,045
Noninstructional programs:								
Food service operations	20,080	480	2,029	14,605	10,260	28,861	16,440	12,376
Other expenditures:								
Facilities acquisition	94,602	74,742	115,319	109,923	116,438	343,903	128,982	7,464
Debt service:								
Principal	-	-	-	-	-	-	275,000	-
Interest and other charges	-	-	-	-	-	-	11,440	12,650
AEA flowthrough	70,957	66,832	65,881	63,716	63,577	60,459	61,830	64,215
Total	<u>\$ 2,455,544</u>	<u>\$ 2,197,559</u>	<u>2,304,604</u>	<u>2,361,229</u>	<u>2,285,990</u>	<u>2,375,482</u>	<u>2,342,370</u>	<u>1,918,583</u>

See accompanying independent auditor's report.

BRUCE D. FRINK
Certified Public Accountant

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Terril Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 21, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Terril Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Terril Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Terril Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified no items which we consider to be significant deficiencies.

Compliance and Other Matters

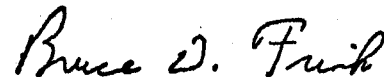
As part of obtaining reasonable assurance about whether Terril Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Terril Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Terril Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Terril Community School District and other parties to whom Terril Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Terril Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 21, 2011

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-10 Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 112, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the certified budget amounts in the non-instructional programs function. The District did not exceed its unspent authorized budget.
- Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion - Response accepted.
- II-B-10 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-H-10 Certified Annual Report - The Certified Annual Report was certified timely to the Department of Education.
- II-I-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-J-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:
(continued)

II-L-10 Statewide sales, services and use tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance		\$ 71,018
Statewide sales, services and use tax revenue		161,388
Expenditures/transfers out:		
School infrastructure:		
Equipment	\$118,504	
Other improvements	<u>92,765</u>	<u>211,269</u>
Ending balance		<u>\$ 21,117</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 Of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant and Equipment Levy	\$1.00	88,236
General Fund	<u>.83</u>	<u>73,132</u>
	<u>\$1.83</u>	<u>161,368</u>